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FOR RELEASE: Wednesday 2 November 1977

DAY CARE AND PUBLIC POLICY IN ONTARIO, a research report prepared for the Ontario Economic Council by Professor Michael Krashinsky, and published by the University of Toronto Press.

TORONTO, November 2 -- Full deduction of child care costs from the taxable income of working mothers with preschool children would be less costly to government than existing direct subsidization of child care, according to a report released today by the Ontario Economic Council. Current policy "encourages the entry into the labour force of women for whom work is inefficient" in the sense that earnings may be more than offset by increased costs of child care and lost productivity in the home.

In "Day Care and Public Policy in Ontario," economist Michael Krashinsky notes that between 1967 and 1974 Ontario day care expenditures grew at a rate of about 56 per cent per year, to over \$16,000,000 in 1974-75, yet benefit only a small percentage of preschoolers in the Province.

Prof. Krashinsky proposes that if child care subsidies are to continue, then a voucher plan that would partially subsidize enriched programs for all preschool children would be preferable. This would allow single parents freedom of choice as to whether or not to enter the labour force.

Dr. Krashinsky, a native of Montreal who is Assistant Professor of Economics in the Social Sciences Division of Scarborough College, concludes that the current policy of subsidizing full-day professional care is inefficient and wastes scarce public resources.

He found that while the existing program creates a bias in favour of the use of the most expensive kind of care, working parents, irrespective of income, often prefer to have children cared for by unpaid relatives and friends. This "should make one suspicious of arguments that (professional) day care is the best way to care for children," he suggests. If the funds now used for day care were made available directly to working parents, families would be better off.

Prof. Krashinsky emphasizes that his report "does not argue against redistributing income, only against doing so inefficiently." He points out that the issues of redistribution and efficiency must be resolved separately.

At present, he writes, "It is not clear that adequate consideration has been given to exactly what kind of day care program will finally result in Ontario and to what the ultimate level of day care expenditures will be." He believes that while day care subsidies may be used to help children, they should not be used if the objective is to assist parents because a tax deduction is far more cost-efficient for this purpose.

Furthermore, he notes, a fundamental underlying principle has yet to be defined by government policy-makers: "Should the government assume a larger financial responsibility for children, or should the financial burden remain on the shoulders of their parents? Only when that question is answered can economic analysis indicate how best to structure day care policy."

In Metro Toronto, where infant day care costs more than \$4,000 per year per child, "This type of care must be inefficient unless the mother is extremely productive in the labour force." But in practice the mothers receiving subsidized care include many whose wages are among the lowest in the Province.

At the same time, he found, "standards established in the United States would rate most Ontario day care centres barely above 'minimum'."

Prof. Krashinsky believes there is virtually no way to reduce the high costs of day care itself. He finds that costs are higher in centres serving large numbers of subsidized children, and predicts that increases in subsidy programs will result in even higher costs.

However, he warns, to eliminate day care subsidies without any other change in policy would make many families significantly worse off. His tax-reducing proposals "would depend not only upon Ontario but upon changes in federal taxation and in the Canada Assistance Plan." The CAP, which was established in 1966, provides for 50-50 federal-provincial sharing of day care expenditures. Ontario in turn has encouraged municipalities to subsidize day care by paying 80 per cent of all their costs.

Prof. Krashinsky suggests that "Because the care of children is an emotional issue, day care represents fertile ground on which to fight for change. And day care is a new sector. Changes in policy can be achieved without a large body of laws and expectations to make change both difficult and expensive."

"Day Care and Public Policy in Ontario" was prepared under the auspices of the Ontario Economic Council, an autonomous research agency funded by the Province of Ontario. The Council acts as an independent advisor to government and all political parties, undertakes research and policy studies to encourage the optimum development of the human and material resources of Ontario, and to support the advancement of all sectors of the Province. The Council achieves these goals by sponsorship of research projects, publication of studies and organization of the Outlook and Issues conferences and seminars which are open to the public.

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NOTE: A list of persons to contact for further information, a brief biographical sketch of the author, and a selection of quotations from the report are attached.

FOR FURTHER INFORMATION, CONTACT:

Professor Michael Krashinsky, (416) 284-3153

Dennis Forristal, public relations counsel, (416) 481-4438

Donald A. Dawson, Research Director, Ontario Economic
Council, (416) 965-4315

Grant L. Reuber, Chairman, Ontario Economic Council,
(519) 679-3711

AUTHOR'S BIOGRAPHICAL SKETCH:

Professor Michael Krashinsky, 30, completed his undergraduate training at the Massachusetts Institute of Technology and a doctorate in Economics at Yale. Born in Montreal, he has lived since 1973 in Scarborough and is Assistant Professor of Economics in the Division of Social Sciences at Scarborough College, University of Toronto. He is married and his children, ages one and three, are not in day care.

DAY CARE AND PUBLIC POLICY IN ONTARIO (139 Pgs.) is published by the University of Toronto Press, 5201 Dufferin St., Downsview, Ontario M3H 5T8, or 33 East Tupper St., Buffalo, New York 14203.

Also available from the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: \$6.50

SELECTED QUOTATIONS

"Economic analysis cannot resolve a question that is fundamentally political. What the economist can do, and what this report attempts to do, is to ask whether a certain set of policies are the best way to achieve a given set of goals. ...simply because this is now the major area of debate on day care. ...the prime concern of this report is child care to fill the needs of working mothers." (Pgs. 4-5)

"Two out of every five mothers work; one out of three mothers with preschool children works. Day care policy must reflect this reality." (Pgs. 82-83)

"The first day nursery in Ontario ... was founded in 1892 ... but formal government involvement in day care did not emerge until World War II ... day care became a way to free badly needed mothers for work in essential industries. In March 1942 the Dominion-Provincial Agreement made available government subsidies, the costs of which were to be shared equally between Canada and the provinces.... Ontario was the only province to act under the agreement ...(which) ended on 30 June 1946.

"Mothers who intended to continue working after the war protested bitterly, resulting, in Ontario, in the Ontario Day Nursery Act of 1946, which offered 50 per cent funding of operating expenses to any municipality undertaking to provide day care. The act also required the licensing and inspection of day care centres and nursery schools." (Pgs. 17-18)

"All categories of day care centres have grown rapidly in Ontario in the last few years. These include municipal centres, private non-profit and private commercial centres, and co-operative centres. Public funding has played a major role along with the growing number of children to be served. The big boom began in 1966 with the passing of the Canada Assistance Plan, which shared federally on a 50-50 basis the provinces' day care expenditures. As CAP was extended, Ontario encouraged municipalities to subsidize day care by paying 80 per cent of all costs...." (Pg. 130)

"Between 1950-51 and 1966-67, expenditures by the Ontario Provincial Government on day care grew at a rate of about 5½ per cent per year, from just under \$200,000 to just under \$470,000. During the next eight years, expenditures grew at a rate of about 56 per cent per year, to over \$16,000,000 in 1974-75." (Pg. 129)

"It would be inefficient to induce all women to use day care for their children and enter the labour force, independent of the woman's productivity and the costs of day care for the woman's children. It would be inefficient to structure programs to assist children so that women must work in order that their children might participate. It would be inequitable to penalize the children of low income women who do not work. It would be inequitable to direct high quality day care to poor families and leave the children of the near-poor in inadequate care. It would be inefficient to transfer all children of currently working parents into high-quality high-cost day care when many of those children are presently cared for at much lower cost and with equal care and affection in informal arrangements." (Pgs. 58-59)

"Subsidizing day care increases the net wage, and so exactly does reducing taxes (or reducing the amount by which benefits are cut when income is earned). But the day care subsidy involves other inefficiencies not present in the tax reduction. First of all, the day care subsidy can apply to families where day care is clearly inefficient. Consider a family in which there are three preschoolers.... Day care in a Metro Toronto municipal centre ... would cost upwards of \$10,000. If the mother can earn only \$6,000 when she works, it is hard to argue that day care represents an efficient use of public funds, yet subsidized day care would make work an attractive proposition. A reduction of the marginal tax rate, even to zero, would not induce this mother to work. Secondly, subsidizing day care itself implies that this is the most desirable way to care for children when their parents work. But it is clear that most parents who now work and who are not subsidized do not choose day care. These families prefer care given by a relative or friend and, if this is not possible, favour paid babysitting. A subsidy

for the use of high-cost day care may induce many parents to use day care over a lower cost, reliable alternative. Suppose, for example, a parent has available babysitting in the home of a trusted friend, and both agree that \$25 per week would represent a fair price. If subsidized free day care is offered to the family, most families would choose to use it, at a cost to the public of far more than \$25 per week." (Pgs. 61-62)

"The argument ... of 'donor's preferences' ... argues that optimal policy ought to consider not only the welfare of the recipients of public monies, but also the preferences of taxpayers for the uses to which poor recipients put that money. The author ... believes that this argument has no proper role in public policy. However, whatever considerations the economist believes are important, it is clear that politicians are responsive to the wishes of taxpayers. As far as day care is concerned, these wishes are contradictory: on one side, there has been a desire to keep mothers at home;... on the other ... to put those on welfare to work. Shifts in the balance of these two views have had much to do with the making of day care policy." (Pg. 68)

"Even if the government were to assume full financial responsibility for children, ... universal free day care would represent an inefficient use of resources. Far superior would be a combination of cash transfers to the family and a reduction of marginal tax rates on the parents' earnings." (Pg. 65)

"Tax law seems to reflect the view that women work for money to purchase luxuries, so that their earnings ought to be taxed at a rate well above that faced by the family's first wage earner. ...in a family with young children, the entry into the labour force of the second parent imposes significant costs on the family. ...not only child care, but the loss of the time used for ... running a household. The gain to the family when the second parent works is far less than the gain when the first parent enters the labour force, yet taxes are much higher on the second parent." (Pg.87)

"Higher subsidies to day care can only be justified by a desire to improve the welfare of the children themselves rather than that of the whole family.... A voucher ... issued to parents of all (preschool) children ... could be used for an enriched nursery school program ... when the parent did not work. When the parent did work, the voucher could be used in a day care centre to defray part of the fee.... When the parent used other child care arrangements, the voucher would be used for nursery school. Since it would reduce the amount of time a babysitter would be required, there should be little problem in encouraging use of the voucher. Or it could be used even for an enriched program at the home of the sitter, if a number of children were involved and it was financially feasible." (Pg. 132)

(One problem with regulation is) "how to identify the characteristics of quality.... Staff-child ratios are important and are regulated, but equally important is the quality of the people working in the centre.... One danger with regulation is its frequent insistence on 'paper', that is academic, qualifications. In fact, what is wanted ... is workers who are loving and competent --qualities hard to ensure by academic experience." (Pg. 133)